

Decision 83 11 008

NOV 2 - 1983

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of CP NATIONAL CORPORATION, a )  
California corporation, for an order )  
authorizing it to issue and sell )  
securities. )

Application 83-08-58  
(Filed August 23, 1983)

O P I N I O N

CP National Corporation (CP National) requests authority under Public Utilities (PU) Code Section 816 through 830, to issue, sell and deliver such number of its common shares, preferred shares or preference shares, or such amount of its long-term debt securities to produce aggregate proceeds of all such securities of \$20,000,000.

Summary of Decision

This decision grants CP National the authority requested in the application.

Notice of the filing of the application appeared on the Commission's Daily Calendar on August 26, 1983. No protests have been received.

CP National, a California corporation directly and through its subsidiaries, is engaged in public utility operations in Oregon, California, Nevada, Texas, New Mexico and Arizona. The company provides electric, gas, telephone, and water services in California.

Based on its consolidated statements of income for the 12 months ended June 30, 1983, attached as Exhibit A to the application, CP National generated total consolidated operating revenues of \$166,018,000 and net income of \$14,031,000. For the calendar year ended December 31, 1982, CP National states that 24.55% of its total consolidated operating revenue were derived from California utility operations.

CP National's consolidated Balance Sheet as of June 30, 1983, also shown as part of Exhibit A is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$217,261,000
Net Other Property & Investments	32,557,000
Current Assets	41,670,000
Deferred Charges	<u>19,560,000</u>
Total	\$311,048,000
 <u>Liabilities and Equity</u>	
Common Stock Equity	\$ 89,515,000
Preferred Stock	9,974,000
Long-Term Debt	128,643,000
Current Liabilities	47,650,000
Deferred Credits	<u>35,266,000</u>
Total	\$311,048,000

By this application, CP National seeks authority for permanent financing of \$20,000,000. During late 1983 or early 1984, CP National proposes to issue permanent securities, the exact nature of which has not been determined. CP National presently expects to issue up to \$20,000,000 of its common shares, although

it is possible that it would issue up to \$10,000,000 of common shares and \$10,000,000 of long-term debt. Further, CP National would consider the issue of other types of permanent securities, such as up to \$16,000,000 of its common shares and up to \$4,000,000 of its preferred shares. CP National's decision on these or other types of permanent financing, as well as the methods of sale, most appropriate for it, would be based on CP National's determination of the best interests of its customers and its shareholders, in light of market conditions at the time of issue.

Request for Exemption from Competitive Bidding

CP National requests an exemption from the Commission's competitive bidding rule. These rules were established by Commission Decision (D.) 38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556 and D.81908, which generally require California Public Utilities to obtain competitive bids for the purchase of their debt securities.

The reasons for an exemption from the competitive bidding rule are set forth in the application and in a letter dated September 26, 1983 from the utility's attorney. Following is a summary of the reasons: First, if CP National should decide to issue debt securities, competitive bidding would be inappropriate in the case of debt convertible into the utility's common stock. Such a security would require CP National to balance the exact terms of the conversion feature against the coupon interest rate

during the marketing effort, in order to achieve the optimal cost of money. CP National contends that this type of security transaction only can be done effectively if the utility is able to negotiate such terms with a single underwriter. Finally, if CP National should decide to issue debt securities such as conventional debentures, because of the small size of the offering and the utility's credit ratings (Moody's - Baa 3; Standard & Poor's BBB-), CP National does not believe it could attract sufficient attention of competitive bidders or that any such bids would be more advantageous than the terms of a negotiated public offering. Moreover, CP National has never had a competitive bid offering and thus it is not known in that market.

In D.91984 dated July 2, 1980 in Application (A.) 59633 for San Diego Gas and Electric Company, we discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule. We served notice that assertions regarding the volatility of the market, the flexibility provided by a negotiated sale, and the importance of maximizing the effectiveness of the underwriting group will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

We are frankly uncertain whether under current volatile conditions, unfavorable to the issuer of corporate debt, strict adherence to the competitive bidding rule would prove beneficial. Consequently, for this application only, we will authorize CP National to proceed on either a negotiated public offering, private placement basis or by competitive bidding, according to CP National's estimation of where the most favorable opportunity lies.

The Commission's Revenue Requirements Division has reviewed CP National's request and has concluded that an exemption from the Commission's competitive bidding rule should be granted and, alternatively, to grant authority to issue the \$10,000,000 of debt securities, if that is considered a portion of the utility's permanent financing proposal requested in this application.

If CP National chooses to issue and sell its debt securities by means of a negotiated public offering or by a private placement, we place it on notice that in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of the interest expense if it is determined that the cost of money incurred was not the most prudent. We will also require CP National to provide us with a showing of why it believes that the resulting interest rate and cost of money were the most advantageous to the company and its

ratepayers. We will require this showing within a reasonable period of time after the issuance and sale of its debt securities.

CP National's consolidated capital ratios recorded as of June 30, 1983 and after giving effect to the proposed financing, are as follows:

	<u>June 30, 1983</u>	<u>Pro Formal<sup>1/</sup></u>	<u>Pro Forma<sup>2/</sup></u>	<u>Pro Forma<sup>3/</sup></u>
Long-Term Debt	53.1%	48.7%	52.5%	48.7%
Short-Term Debt	<u>7.3</u>	<u>6.0</u>	<u>6.0</u>	<u>6.0</u>
Total Debt <sup>4/</sup>	60.4%	54.7%	58.5%	54.7%
Preferred/Preference Stock	4.1	3.8	3.8	5.3
Common Equity	<u>35.5</u>	<u>41.5</u>	<u>37.7</u>	<u>40.0</u>
Total	100.0%	100.0%	100.0%	100.0%

The application states that the foregoing ratios are significantly affected by the inclusion of the separate indebtedness of CP National's operating telephone subsidiaries in the consolidated figures it is required to use for financial statement

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- 1/ Assumes \$20,000,000 common stock financing.
  - 2/ Assumes \$10,000,000 common stock and \$10,000,000 long-term debt financing.
  - 3/ Assumes \$16,000,000 common stock and \$4,000,000 preferred stock financings.
  - 4/ Includes \$37,971,000 of subsidiary long-term debt and \$300,000 of subsidiary short-term debt.

presentation. Much of the operating telephone companies' debt is comprised of REA borrowings which typically allow higher debt ratios and provide interest rates from 2% to 8%. The following table shows parent company only ratios for the period presented above:

	<u>June 30, 1983</u>	<u>Pro Forma1/</u>	<u>Pro Forma2/</u>	<u>Pro Forma3/</u>
Long-Term Debt	44.8%	40.6%	45.0%	40.6%
Short-Term Debt	<u>8.4</u>	<u>6.8</u>	<u>6.8</u>	<u>6.8</u>
Total Debt	53.2%	47.4%	51.8%	47.4%
Preferred/Preference Stock	4.9	4.4	4.4	6.2
Common Equity	<u>41.9</u>	<u>48.2</u>	<u>43.8</u>	<u>46.4</u>
Total	100.0%	100.0%	100.0%	100.0%

CP National is engaged in an extensive construction program and estimates that the gross expenditures required for this construction program for the years 1983 and 1984 will approximate \$16,500,000 and \$16,610,000, respectively. CP National estimates that internally generated funds will provide approximately 48% of the total of the 1983 capital expenditures and 71% of the 1984

1/ Assumes \$20,000,000 common stock financing.

2/ Assume \$10,000,000 common stock and \$10,000,000 long-term debt financing.

3/ Assumes \$16,000,000 common stock and \$4,000,000 preferred stock financing.

capital requirements. Thus, CP National anticipates that the proposed securities will be necessary to help it meet its requirements for external financing on a permanent basis.

The Commission's Revenue Requirements Division has analyzed CP National's cash requirement forecast and has concluded that the issuance of up to \$20,000,000 of permanent securities is necessary to help CP National meet forecasted cash requirements. The Division has also reviewed CP National's 1983-1984 construction program and finds that the financing is necessary to fund the planned construction expenditures. The Commission is not finding that the construction is necessary and reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

Findings of Fact

1. CP National, a California corporation, operates under the jurisdiction of this Commission.
2. The proposed issuance of permanent securities would be for proper purposes.
3. CP National has need for external funds for the purposes set forth in the application.
4. The proposed permanent securities are not adverse to the public interest.



5. The proposed issuance of debt securities should not be required to be through competitive bidding.

6. The money, property, or labor to be procured or paid for by the permanent securities is reasonably required for the purposes specified in the application.

7. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows:

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on date of signature and payment of the fee set by PU Code Sections 1904(b) and 1904.2 to enable CP National to issue its securities expeditiously.

O R D E R

IT IS ORDERED that:

1. CP National Corporation (CP National), on or after the effective date of this order, may issue, sell and deliver such number of its common shares, preferred shares or preference shares, or such amount of its long-term debt securities which would produce aggregate proceeds of all such securities of \$20,000,000.

2. CP National shall determine the specific terms of such securities on the basis of market conditions at the time of issue, sale and delivery.

3. CP National shall issue such number of common shares as should be required to comply with any conversion provision which might be included in the terms of an issue of its preferred shares, preference shares or debt securities.

4. CP National shall execute such indentures as would be appropriate for an issue of its debt securities.

5. Sales by CP National of its debt securities in the aggregate principal amount up to \$10,000,000 is exempted from the Commission's competitive bidding rule for the purpose of permitting these sales by negotiated public offerings or negotiated private placements; alternatively, CP National may issue and sell its debt securities by means of competitive bidding.

6. If the debt securities are sold by negotiated public sale or negotiated private placement, within 30 days after their issuance or sale, CP National shall file with the Commission, a report setting forth the reason the utility believes the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

7. CP National shall apply the net proceeds from the issue of the securities for the purposes set forth in the application.

8. Promptly after CP National ascertains the amount, price, underwriting commission and, to the extent applicable, the dividend or interest rate, the redemption terms and the maturity with respect to each issue of the securities, it shall so notify the Commission in writing.

9. As soon as available, CP National shall file with the Commission three copies of the final prospectus relating to the public offering of an issue of the securities.

10. CP National shall file the reports required by General Order No. 24.

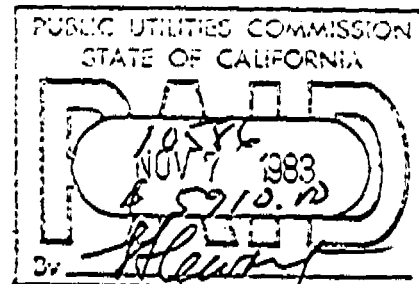
11. The authority granted by this order will become effective when CP National pays \$5,910, the fee prescribed by PU Code Section 1904(b) and 1904.2. In all other respects, this order is effective today.

Dated NOV 2 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.  
President  
VICTOR CALVO  
PRESCEILLA O. CREW  
WILLIAM R. BAGNEY  
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.



*[Signature]*  
Joseph E. Bodovitz, Executive Director